

**REPORT OF THE AUDIT OF THE
FORMER POWELL COUNTY
SHERIFF**

**For The Period January 1, 2002
Through January 5, 2003**



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EDWARD B. HATCHETT, JR.
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To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Bobby Drake, Powell County Judge/Executive

Honorable Darren L. Farmer, Former Powell County Sheriff

Honorable Joe Martin, Powell County Sheriff

Members of the Powell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Powell County, Kentucky, for the period January 1, 2002 through January 5, 2003.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the Powell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER POWELL COUNTY
SHERIFF**

**For The Period January 1, 2002
Through January 5, 2003**

**ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY40299
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER POWELL COUNTY SHERIFF

**For The Period
January 1, 2002 Through January 5, 2003**

Ross & Company, PLLC has completed the former Powell County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$ 12,390 from the prior calendar year, resulting in excess fees of \$ 26,955 as of January 5, 2003. Revenues increased by \$ 20,032 from the prior year and disbursements increased by \$ 7,642.

Report Comments:

- The Former Sheriff Has a Lack Of Adequate Segregation Of Duties
- The Former Sheriff Should Make A Final Settlement With Fiscal Court Upon Vacation Of Office

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Powell County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Bobby Drake, County Judge/Executive
Honorable Rhonda "Allen" Barnett Powell County Clerk
Honorable Darren L. Farmer, Former Powell County Sheriff
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 28, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former Sheriff Has a Lack Of Adequate Segregation Of Duties
- The Former Sheriff Should Make A Final Settlement With Fiscal Court Upon Vacation Of Office

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
July 28, 2003

POWELL COUNTY
 DARREN L. FARMER, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

Federal Grants		\$	63,507
State - Kentucky Law Enforcement Foundation Program Fund			24,794
State Fees For Services:			
Finance and Administration Cabinet			14,573
Circuit Court Clerk:			
Sheriff Security Service	\$	15,152	
Fines and Fees Collected		<u>3,985</u>	19,137
Fiscal Court			16,390
County Clerk - Delinquent Taxes			2,217
Commission On Taxes Collected			81,155
Fees Collected For Services:			
Auto Inspections	\$	3,788	
Accident and Police Reports		203	
Serving Papers		21,620	
Carrying Concealed Deadly Weapon Permits		3,540	
Penalties on Collection of Taxes		<u>23,365</u>	52,516
Other:			
Miscellaneous	\$	4,464	
Reimbursements		25	
Executions		<u>350</u>	4,839
Interest Earned			1,127
Borrowed Money:			
State Advancement			<u>11,100</u>
Total Receipts		\$	291,355

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
 DARREN L. FARMER, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through January 5, 2003
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	122,788	
Part-Time Salaries		1,620	
KLEFPF Pay		21,393	
Overtime		2,860	\$ 148,661

Employee Benefits

Employer's Share Retirement			1,563
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Contracted Services-

Advertising	\$	1,589	
Vehicle Maintenance and Repairs		3,387	
Fiscal Court Filing Fees		4,380	9,356

Materials and Supplies-

Office Materials and Supplies	\$	3,425	
Uniforms		3,290	
Dry Cleaners		730	
Film		458	7,903

Auto Expense-

Gasoline			16,867
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Other Charges-

Service Fees	\$	380	
Dues		50	
Postage		125	
Reimbursements		340	
Bond		507	
Carrying Concealed Deadly Weapon Permits		2,445	
Transporting Prisoners		498	
Miscellaneous		1,820	6,165

Capital Outlay-

Office Equipment			526
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Debt Service:

State Advancement			11,100
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Total Disbursements	\$		202,141
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The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
DARREN L. FARMER, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
For The Period January 1, 2002 Through January 5, 2003
(Continued)

Net Receipts	\$ 89,214
Less: Statutory Maximum	<u>62,259</u>
Excess Fees Due County for 2002	\$ 26,955
Payments to County Treasurer - July 28, 2003	<u>26,955</u>
Balance Due at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the former County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

Note 4. Grants

A. COPS In School Grant

During 2000, the former Sheriff was awarded a grant in the amount of \$63,958 that is to be used for the salary of a school resource officer from the period of April 1, 2000 to March 31, 2003. The balance in the account as of January 1, 2002 was \$0. For 2002, the former Sheriff received and expended \$22,582 under the terms of this grant. The balance in the account at January 5, 2003, was \$0.

B. Universal Hiring Grant

During 1999, the former Sheriff was awarded a grant in the amount \$ 95,938 that is to be used for salaries from the period of April 1, 1999 to March 31, 2002. The balance in the account at January 1, 2002 was \$0. For 2002, the former Sheriff received and expended \$38,426 under the terms of this grant. The balance in the account at January 5, 2003, was \$0.

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COMMENTS AND RECOMMENDATIONS

POWELL COUNTY
DARREN L. FARMER, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Make A Final Settlement With Fiscal Court Upon Vacation Of Office

KRS 64.830 states that each outgoing county official shall make a final settlement with the fiscal court of his county by March 15 immediately following the expiration of his term of office for all money received by him as county official and to obtain his quietus, and immediately thereafter he shall deliver these records to the incumbent county official. The Sheriff should make a final settlement with the fiscal court.

County Sheriff's Response:

We will do so in the future.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Former Sheriff Has A Lack of Adequate Segregation of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be difficult. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations.

County Sheriff's Response:

None.

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the former Powell County Sheriff for the period January 1, 2002 through January 5, 2003 and have issued our report thereon dated July 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Powell County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comment and recommendation.

- The Former Sheriff Should Make A Final Settlement With Fiscal Court Upon Vacation Of Office

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- The Former Sheriff Has a Lack Of Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
July 28, 2003

